INDEPENDENT RESEARCH

22nd March 2016

TMT

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Feedback from our TMT Conference in Paris

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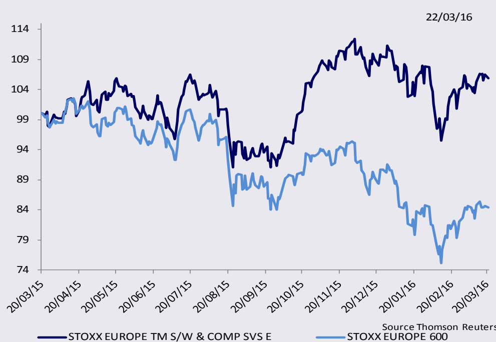
ATOS		**BUY**	**FV EUR93**
Last Price	EUR70.8	*Market Cap.*	EUR7,329m
AXWAY SOFTWARE		**NEUTRAL**	**FV EUR24**
Last Price	EUR19.62	*Market Cap.*	EUR404m
CAPGEMINI		**BUY**	**FV EUR93**
Last Price	EUR78.85	*Market Cap.*	EUR13,576m
SOFTWARE AG		**BUY**	**FV EUR38**
Last Price	EUR33.135	*Market Cap.*	EUR2,618m
SOITEC		**NEUTRAL**	**FV EUR0.5**
Last Price	EUR0.61	*Market Cap.*	EUR141m
SOPRA STERIA GROUP		**BUY**	**FV EUR113**
Last Price	EUR103.95	*Market Cap.*	EUR2,125m
STMICROELECTRONICS		**NEUTRAL**	**FV EUR7**
Last Price	EUR4.986	*Market Cap.*	EUR4,542m
UBISOFT		**BUY**	**FV EUR34**
Last Price	EUR26.89	*Market Cap.*	EUR2,991m
WIRECARD		**BUY**	**FV EUR52**
Last Price	EUR31.5	*Market Cap.*	EUR3,892m
WORLDLINE		**BUY**	**FV EUR29**
Last Price	EUR20.9	*Market Cap.*	EUR2,761m



We organised a European TMT conference in Paris on 10th and 11th March, where we had the pleasure of welcoming CEOs, CFOs and IRs from 16 TMT companies. This report summarises our feedback from the 10 companies represented that come under our coverage (sub-segments: Software & IT Services, Payments, Semiconductors and Video Games).

- **Two weeks ago, we organised a European TMT conference in Paris over two days: on 10th** (Axway, Altran, Focus Home Interactive, Keyware Technologies, Materialise, Soitec, Software AG, Wirecard) **and 11th March** (Atos, Adesso, Capgemini, Dalenys, GFT Technologies, Sopra Steria, STMicroelectronics, Ubisoft and Worldline).

- **In this document, you will find Key Focuses we learnt from this event** (1/ one chart, 2/ one sentence, 3/ one figure, and 4/ how the Conference impacts our investment case) **for the 10 companies we cover:** in Software & IT Services (Atos, Axway, Capgemini, Software AG, Sopra Steria Group), Payments (Worldline and Wirecard), Semiconductors (Soitec, STMicroelectronics) and Video Games (Ubisoft).

- Note also that **following a road show with the management of Altran** (CEO, CFO and Senior EVP), **we released a specific feedback on 15th March** (MorningMail Altran).

- Overall, these meetings with management teams provided **an opportunity to reinforce our investment cases and discuss current topics of interest**.

- **Remember our Q1 TMT Top Picks are: Atos** (Buy, FV EUR93), its Payment subsidiary **Worldline** (Buy, FV EUR29) **and Wirecard** (Buy, FV EUR52).

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During meetings with Axway at our TMT conference, much of the time was spent clarifying the 2018 ambitions announced for the FY15 results on 25th February. The goals set by the management are ambitious on growth, while the company has EUR125m credit lines for making acquisitions. Given the challenging targets, we deem investors will wait and see before buying the stock again despite low valuation multiples. 9

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We raise our DCF-derived fair value to EUR38 from EUR34 on an increase to our medium-term adj. EBIT margin assumption (to 35% from 33% = +EUR2/share) and an update to our WCR ests. (+EUR2). The meetings held at our TMT conference confirmed that the sales transformation led by Eric Duffaut has started to bear fruit, gradually raising Software AG's stock market status to "growth" from "value". 21

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In February 2016, Soitec proposed two successive capital increases for a total amount of between EUR130m and EUR180m. Our TMT conference was a good chance to come back on these operations. Obviously, investors' questions were not only about the use of the proceeds but also on the potential of FD-SOI, Soitec's growing technology. While we were already convinced that FD SOI has real technological advantages, discussions at our TMT conference confirmed our thoughts. Nevertheless, the group must go through two capital increases and prove FD SOI can be a commercial success with facts. 27

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The conference comforts our positive view: 1). The integration of Steria led to faster-than-expected synergies; 2). Free cash flow is improving; 3). The group is growing faster than its market; and 4). The operating margin is catching up with the best European players in IT Services. We consider the 8-9% operating margin target for 2017 is achievable. 33

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In late January 2016, the group presented its strategic plan to discontinue its set-top box business and improve the operating margin. Our TMT conference was a chance to come back on this plan while investors were also curious about current market conditions. Overall, we believe that this refocus is a step in the right direction and a mandatory operation to achieve decent operating margins but we also continue to believe that this will take time. We keep our Neutral recommendation. 39

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During meetings with Ubisoft's management (CFO and IR) at our TMT conference, half of the time was spent discussing the company on a stand-alone basis, and the other half on Vivendi's entry into the share capital with the direct and indirect implications. Ubisoft again stated that its FY 2018/19 financial targets are based on cautious assumptions and that it intends to remain independent in the interests of all of its shareholders. We maintain our Buy rating and FV of EUR34 (our FV is a minimum price in the case of takeover bid). 45

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During meetings with Wirecard at our conference, 90% of the time was spent discussing the Zatarra report following questions asked by investors and because management wanted to address this concern. The remainder of the time was spent on the buoyant business trend in e-commerce. Wirecard again stated that its 2016 EBITDA guidance of EUR280-300m is conservative. Buy rating – FV EUR52 (Q1 Top Pick). 51

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During meetings with Worldline's management (CEO and IR) at our TMT conference, much of the time was spent explaining the company's activities and discussing the sector. They emphasised the complementary benefits of the Equens and KB transactions. And finally, they reiterated the FY16 guidance (+3% in lfl sales, EBITDA margin of 20%, i.e. +80bps, FCF of EUR135/140m), adding that it excludes the last two acquisitions (an update should be provided at the H1 earnings, in July). Buy rating and FV of EUR29 (incl. Equens and the end of the French radar contract are integrated) – Q1 Top Pick. 57

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Atos Earnings growth IS the story (BUY-Top Picks, FV)

The meetings held at our TMT conference were the opportunity for reiterating our Buy (and Top Pick) case on Atos: this is not an organic growth buy, Unify and Equens both create fresh synergy opportunities, and the acquisition strategy - which still has an eye on shareholder value - is well assumed.

- · **Addressing the goal of doubling organic growth.** Doubling lfl revenue growth to 0.8% in 2016 is feasible thanks to strong cloud volumes in Managed Services, the turnaround of Germany in Consulting & Systems Integration, continuous strength in Big data & Cyber Security, and 3% lfl growth for Worldline. The book-to-bill ratio in Q4 15 was encouraging in IT Services, particularly for Consulting & Systems Integration.
- · **Confidence reiterated for operating margin and free cash flow**. For 2016, the operating margin is set to increase by 0.4-0.9ppt to 9-9.5% essentially through better offshore leverage and the turnaround in Germany in Consulting, more automation in Managed Services, and Bull-related cost synergies. The free cash flow is still expected to jump to EUR550m from EUR393m, essentially thanks to EUR90m less cash-outs related to restructurings following the successful integration of Bull.
- · **Dismissing allegations in the UK press. Atos's IR team brushed off allegations made in The Guardian**. Atos officially sees the contract review as an opportunity to show from a rationale standpoint the quality of the services rendered by its teams in the UK. The audit recommendation dates back two years ago, and the delays did not stem from Atos. In our view, this case reflects the inherent complexity of government IT contracts, which is a parameter to take into account.

· **Making things clear on acquisitions.** CEO Thierry Breton was clear on the fact Perot did not match Atos's acquisition criteria. That being said, acquisitions are in Atos's DNA, but its priorities in that domain are in Payments in Europe, and IT Services in the US. Atos reiterated its strong confidence on the EUR130m cost synergies expected by 2017 from the integration of Unify.

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- Clarifying 2018 ambitions. For 2018, Axway aims at doubling its size compared to 2014 while preserving its non-IFRS operating margin before the next acquisitions. The goal is to reach EUR520m revenues in 2018 (o/w EUR130m from organic growth and EUR130m from acquisitions) while the non-IFRS op. margin over the 2016-2018 period would be, on average and excluding future acquisitions, similar to that of 2015 (15.6%).
- Ambitious revenue growth goals. These goals are translating, according to Axway, into 7-8% lfl revenue CAGR over 2016-18. We calculate that a 30% revenue CAGR in the "Ecosystem Engagement" segment (25-30% of licence sales) implies a low- to mid-single digit CAGR in the "Integration Foundation" segment (70-75% of licence sales). These are a challenge but growth will essentially be driven by the US.
- Sizeable acquisition capacity. With EUR125m of available credit lines, Axway considers it currently has an acquisition capacity of EUR180-200m, while the banking covenants stipulate a net debt/EBITDA limit of 3x. The bulk of future acquisitions will be paid for in cash, but it could be made in shares if a large opportunity arises without generating significant dilution for shareholders. Axway has two kinds of potential acquisition targets in mind: small technological acquisitions with a cloud-based model, or 'legacy' competitors with a sizeable installed base in a specific geography.

Comments on the cloud strategy. In addition, most of Axway's cloud revenues are not cloud native (i.e. pure 'multi-tenant' on a public cloud). Some products - essentially in the Ecosystem Engagement segment - can be ported to a pure cloud version, but this is not the case for MFT or B2B integration products as they were not designed for this

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- Quarterly bookings at an all-time high since 2007. In Q4 15, bookings reached a record level, never seen to our knowledge since Q4 07, at EUR3,734m. This highlights the company's positive sales momentum that justifies the implied 2.5-4.5% lfl revenue growth guidance (+7.5%/+9.5% at cc minus a 5ppt contribution from Igate) set for 2016. Growth is likely to continue to be steered by North America, Asia Pacific, Germany and Scandinavia, while France and Benelux are gradually improving.
- Brazil is an issue but not a major one. Latin America (est. 3% of revenues) is likely to continue to be a burden to growth in H1 16. The most important impact to the revenue fall in Brazil in H2 15 stemmed from the weakness of the Brazilian real compared to the US dollar. Buying hardware and software in USD turned to be challenging as they became up to 40% more expensive than the year before in BRL. On the other hand, as Brazil has low profitability and its weight is decreasing in total revenues, it is becoming less dilutive to Capgemini's operating margin.
- No "step effect" to expect on Aspire. The Aspire contract, which accounts for 4% of revenues, is set to expire in June 2017. The Head of IR, Vincent Biraud, confirmed there will be no "step effect" to revenues on it as the transition will take time as it is sensitive. The basic scenario is that Capgemini hopes by 2018 to keep half of the revenues currently generated with HMRC, i.e. 2%. Over 2015-18, the burden to Capgemini's lfl revenue growth would be a maximum 0.7ppt per year on average.

vThe Digital strategy will continue to be supported by acquisitions. After Oinio and Fahrenheit 212, other small deals can be made in the future in Digital, but Capgemini is unlikely to multiply them in order to avoid breaking their entrepreneurial spirit.

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- · Digital Business Platform (DBP) starting the upturn. Q4 15 has been the first quarter with double-digit lfl DBP licence sales growth since 2013. Software AG reaps the benefits of the sales transformation it underwent a year ago under the management of Eric Duffaut. All the performance indicators speak for themselves. Software AG now boasts a win rate of 1:1 by selling use cases instead of 1:3 by selling products, although there is a lot to be done as use cases only account for 20% of deals.
- · Adabas & Natural still to be there for long. The resilience of A&N revenues is no longer surprising as Software AG focuses a lot on customer retention. Customers in the installed base are not left behind. Management is confident A&N will deliver for 2016 a business line margin close to the 70% reported for 2015.
- · Reiterated confidence in 2020 targets. FY16 company guidance (DBP sales up 5-10%, A&N sales down 4-8%, non-IFRS operating margin of 30-31%) brings more confidence to be on track for achieving the 32-35% target set a year ago for 2020: 1). Most of the non-IFRS operating margin increase for 2020 is expected to stem from DBP maintenance; 2). R&D costs will continue to increase at a lower rate than R&D headcount; and 3). In the medium-term, A&N could still have a margin in the high 60s.

· Always prepared for acquisitions. Over the past two years, Software AG made no acquisitions as prices were too high. However, management estimates there are signs that prices are coming down for unlisted companies. Software AG is prepared and is working with banks to increase financial flexibility to buy using cash, not shares. If no acquisition occurs, share buy-backs (3.5% up to now, potential: 10%) will resume.

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- 200mm production sold-out until the end of 2016. First, regarding the 200mm RF-SOI, the group confirmed that all its production capacity is sold-out until the end of 2016. We remind that the group holds a production capacity of about 820,000 wafers per year, yielding annual revenue close to EUR170m. Additional production capacities will be available from Soitec's Chinese partner Simgui, however, we don't expect to see material revenue from Simgui production over FY16 and FY17.
- China shows a strong interest in FD-SOI. While the group partners with a Chinese company for RF-SOI, we note that China is also on the list of strategic partners to support Soitec's capital increases. We believe FD SOI is being eyed up in the Chinese "More than Moore" plan to compete with Intel, Samsung and TSMC in the semiconductor battlefield. In our view, Chinese players could add to the list of semi players designing and producing in FD SOI and strengthen the ecosystem on behalf of STMicroelectronics, GlobalFoundries and Samsung. Assuming a blue sky scenario, these three players ramp FD-SOI technologies by 2017 up to volumes of about 250,000 wafers, Soitec's 300mm sales could jump to ~EUR200m (up from EUR54m expected in FY16) and the FY18e net result would be more than 40% higher than our currently estimated FY18e net result.

No change in our scenario but increasingly positive view on FD SOI. While we do not apply any change to our scenario or our investment case, discussions with the management team at our TMT conference continue to strengthen our positive view on the FD-SOI technology and we are now waiting for material details to prove its commercial success.

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- · Trends are improving. 1). In France, the integration of Steria is on the home stretch, the I2S division is planned to post flattish sales in 2016 and strong growth and an operating margin of c. 5% in 2017, while in Consulting & Systems Integration, Sopra Steria intends to keep outperforming the French market; 2). In the UK, the group will try to expand beyond the government; 3). In Germany, Sopra Steria is well under way to raise profitability to reasonable standards by 2017; and 4). Banking Software has a window of opportunity ahead.
- · EUR150m free cash flow by 2017 looks achievable. Reaching EUR100m of FCF looks to be a fair assumption in 2016 as DSOs should continue to decrease, cash consumption of SSCL is expected to fall to zero, and WCR is likely to increase in line with 2015. For 2017, confidence was reiterated for delivering EUR150m FCF (est. 4% of sales) based on continuous WCR improvement and the complete integration of Steria.
- · Confidence on synergies. Cost synergies as of end 2015 were ahead of expectations, while the cost of implementation was in line with targets. Sopra Steria confirmed its goal for synergies of EUR62m by end 2016 for a total cost of EUR65m. In other words, the plan to deliver EUR62m synergies with Steria is not supposed to exceed expectations but that synergies were unlocked faster than initially planned. Restructuring costs related to Steria should only total an est. EUR10-15m for 2016.

· No pause on acquisitions. We understand Sopra Steria paid EUR92m for acquiring Cimpa, or an est. 18x 2014 EBIT. The recent acquisition of a 75% stake in Cassiopæ will strengthen the Sopra Banking Software offering in real estate and specialised loans. Sopra Steria considers it can use up to EUR100-150m of cash every year for acquisitions.

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STMicroelectronics Prepares for higher margin (NEUTRAL, Fair Value EUR7)

In late January 2016, the group presented its strategic plan to discontinue its set-top box business and improve the operating margin. Our TMT conference was a chance to come back on this plan while investors were also curious about current market conditions. Overall, we believe that this refocus is a step in the right direction and a mandatory operation to achieve decent operating margins but we also continue to believe that this will take time. We keep our Neutral recommendation.

- Q1-16 guidance maintained: the group continues to see soft market conditions but it also sees some light in Automotive. One of the first questions during the meetings was about current market conditions. We remind that STM guides for Q1 sales to decrease sequentially by -3% (+/-350bp) to about USD1.6bn. Friday's talks confirmed Q1-16 guidance with a healthier sequential dynamic in the Automotive market, improving after some correction seen in the second half of last year.
- The group's focus is on growth areas. Another important topic was about the long-term view of the company. We remind that during the Q4-15 results, the group introduced a new organisation with 4 divisions (vs. 5 previously). This implies a refocus on areas with the highest growth and the discontinuation of the highly competitive set-top box business. The focus is now on everything about Smart Driving and IoT. However, except for the information that has already been published (see details in this report), no additional details were shared at the conference.
- A double-digit operating margin seems to be achievable… but we believe this will take time. Another topic on the table was the improvement in the operating margin. The group was very clear on the different levers to activate in order to achieve a double-digit operating margin, however, no timing was given. We remind that a 10% margin target was shared for the first time in late 2013, but the group never communicates on timing. The three main levers are: 1/ positive FX impact to come thanks to hedging, 2/ reduce unused charges thanks to higher activity (at least USD1.8bn per quarter is seen as optimum), and 3/ the discontinuation of the highly competitive set-top box business.

Finally, the group made no comment regarding rumours about a management transition.

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Ubisoft Play again or end of the independent game? (BUY, FV EUR34)

During meetings with Ubisoft's management (CFO and IR) at our TMT conference, half of the time was spent discussing the company on a stand-alone basis, and the other half on Vivendi's entry into the share capital with the direct and indirect implications. Ubisoft again stated that its FY 2018/19 financial targets are based on cautious assumptions and that it intends to remain independent in the interests of all of its shareholders. We maintain our Buy rating and FV of EUR34 (our FV is a minimum price in the case of takeover bid).

- Ubisoft is currently one of the main video game publishers worldwide. It boasts three of the Top 4 biggest-ever new IPs in this demanding industry (in our view, thanks to its in-house development strategy in particular). The group is benefiting from the disappearance of some of its competitors and from its improvement towards digital. Following its latest successful release, Tom Clancy's The Division, the group is demonstrating that it is one of the few players able to operate big online games (high-quality games, with strong online infrastructure and services). This is a major point to prepare for the group's future and make its FY 2018/19 targets credible (digital is its main operating leverage, and notably digital contents).
- Our meetings with Ubisoft have strengthened our view on the current fiscal year, namely that thanks to Far Cry Primal and above all The Division, the group could even meet its previous FY15/16 guidance (the recent profit warning reducing sales from EUR1,465m to ~1,360m and non-IFRS EBIT from >=EUR200m to ~EUR150m). In addition, we predict that The Division could be the first Ubisoft game in history to reach the 15m unit threshold on a 12-month basis.

Regarding Vivendi, management said that it did not need Vivendi to continue to grow, and that managing talents in the video game industry is quite different from managing pure creative people in the media world. We reiterate that a public offer on Ubisoft has to be friendly and that it is essential that the CEO remains at the head of the gaming division (for Vivendi not to take any risk of acquiring an empty shell).

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- The Zatarra Research report was the main topic addressed during meetings between clients and Wirecard's representative Iris Stöckl, (VP Corporate Communications & Investor Relations). She explained to clients that this is not the first time the company has been attacked (it happened when it went from a small to a mid-sized company, and now that it is becoming a big one). A severe punishment should now be dealt so this type of attack can never happen again. The company has specialised lawyers and it seems that they are close to finding out who was behind the Zatarra report. Once this is known, Wirecard will finally be able to sue them. And when we look at short position trends, we believe a serious investigation should be carried out by the BaFin given the strong correlation between releases of reports against Wirecard and short attacks.
- The group has no fear of losing any of its customers. On the contrary, its clients and even some of its competitors have delivered messages of support. In a recent interview with Bloomberg, Wirecard's CEO said he sees no impact from the Zatarra report on operational business.
- Regarding business, Wirecard is very confident. The group has enjoyed a strong start to the year and operational business is excellent, confirming the company's FY16 guidance (Ebitda of EUR280-300m is conservative and excludes proceeds from the proposed Visa Europe sale and the recent acquisitions of Moip Pagamentos and Provus).

Wirecard boasts the best fundamentals in the Payment sector thanks to its positioning in e-commerce (pure-online player) and its exposure to emerging markets (28% of its sales in South-East Asia). The group's profitable growth is not yet priced in: P/E 2016e of 19.2x vs. rest. EPS growth of +40.7%. Buy rating and FV of EUR52 reiterated.

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Worldline : The cheapest stock in our Payment coverage (BUY-Top Picks , FV EUR29)

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- Worldline should now be fully considered as a PSP by investors. It has over 40 years of expertise in the Payment industry and 78% of its FY16e sales is derived from Payments (incl. the last two acquisitions).
- The group has little exposure to the most buoyant segments (no presence in the US, very little in China, low in online segment). That said, it has a resilient profile and numerous strengths: 1/ recurring sales (75%e), 2/ presence in the entire payments value chain, 3/ gradual convergence of its businesses (platforms + uses), 4/ leverage on customer relations and transaction volumes (fixed-cost structure: 55-60% of sales), and 5/ ties with parent company Atos (excellent distribution channel).
- Our meetings with Worldline's management have strengthened our view. With Equens, we consider that Wordline has now a critical mass in Payments. We consider that, even with still a low single-digit organic growth (+3-6%: exposure to Europe and physical payments), the group will improve its margins and with an additional boost once its investments in the WIPE platform are completed (only EUR25m remains to be invested over 2016-17). As a result, the group's fundamentals and multiples should now deserve those of a PSP evolving in the physical space (processor but also acquirer in Benelux), i.e. 12x in EV/EBITDA.

We are waiting for the consolidation dates of Equens and KB before officially integrating them into our financial grid (we should have these details in July). However, they are already included in our valuation. We maintain our Buy rating and FV of EUR29 (Q1 Top Pick). At our FV, the share would be at 11.8x EV/EBITDA 2016e (vs. 8.1x currently), which is consistent with its positioning.

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